

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

\* \* \* \* \*

In the Matter of:

|  |   |               |
|--|---|---------------|
| THE APPLICATION OF SOUTH ANDERSON      | ) |               |
| WATER DISTRICT, INC., ORGANIZED        | ) |               |
| PURSUANT TO CHAPTER 273, OF THE        | ) |               |
| KENTUCKY REVISED STATUTES, FOR (1)     | ) |               |
| A CERTIFICATE OF PUBLIC CONVENIENCE    | ) |               |
| AND NECESSITY, AUTHORIZING AND         | ) |               |
| PERMITTING SAID WATER DISTRICT TO      | ) |               |
| CONSTRUCT A WATERWORKS CONSTRUCTION    | ) |               |
| PROJECT, CONSISTING OF EXTENSIONS      | ) | CASE NO. 8191 |
| TO THE EXISTING WATERWORKS SYSTEM;     | ) |               |
| (2) APPROVAL OF THE PROPOSED PLAN      | ) |               |
| OF FINANCING AND THE APPROVAL OF       | ) |               |
| THE ISSUANCE OF CERTAIN SECURITIES;    | ) |               |
| (3) APPROVAL OF THE INCREASED WATER    | ) |               |
| RATES PROPOSED TO BE CHARGED BY THE    | ) |               |
| DISTRICT TO CUSTOMERS OF THE DISTRICT; | ) |               |
| (4) APPROVAL TO ESTABLISH A WATER      | ) |               |
| PURCHASED ADJUSTMENT TARIFF PROVISION  | ) |               |

O R D E R

Preface

On April 17, 1981, the South Anderson Water District ("Applicant") filed with this Commission its application seeking a certificate of public convenience and necessity authorizing the construction of extensions and related appurtenances to its existing water distribution system; approval of the proposed method of financing; approval of the issuance of certain securities; approval to establish a purchased water adjustment tariff; and approval of proposed adjustments to its existing rates for providing water service. The Applicant currently serves approximately 305 customers.

The matter was set for public hearing at the Commission's offices in Frankfort, Kentucky, on July 8, 1981. All parties of interest were notified in the manner prescribed by the Kentucky Revised Statutes with the Consumer Protection Division of the Attorney General's office being the sole intervenor. At the hearing certain requests for additional information were made by the Commission's staff. This information has been filed and the entire matter is now considered to be fully submitted for a final determination by this Commission.

A copy of a letter from the Division of Sanitary Engineering of the Kentucky Department for Natural Resources and Environmental Protection, approving the plans and specifications of the proposed construction, is on file with this Commission.

#### TEST PERIOD

The Applicant proposed and the Commission has accepted the 12-month period ending March 31, 1980, for the purposes of determining the reasonableness of the proposed rates. Pro forma adjustments have been included where found to be reasonable.

#### REVENUES AND EXPENSES

The Applicant proposed several pro forma adjustments to its test period revenues and expenses which the Commission has accepted with the following revisions:

##### Revenues

The Applicant estimated that following the completion of the proposed construction it would serve an additional 41 customers. The Commission, based on these additional customers at an average

usage of 3,750 gallons per month and an average customer bill of \$14 per month during the test period, has determined that the test period sales revenues should be increased by \$6,888.<sup>(1)</sup>

#### Purchased Water

Based on the amount of estimated additional purchased water necessary to serve the 41 new customers after completion of the proposed construction and limiting the Applicant's line loss to 15% above its adjusted water sales, the Commission has increased the Applicant's pro forma expense for purchased water by \$478.

#### Maintenance

During December of the test period, the Applicant experienced a major leak in its distribution lines which the Commission has determined to be of an unusual nature and as such has amortized the expense associated with this repair of \$2,235 over a three-year period which would reduce the proposed expense for maintenance by \$1,490.<sup>(2)</sup>

#### Depreciation

The Applicant has been calculating its depreciation expense at 2.25% of the original cost of the gross plant in service without giving consideration to the contributions in aid of construction of \$283,565 included in the original cost of the plant. The Commission, after giving consideration to these contributions and to the proposed construction, has determined the Applicant's depreciation expense to be \$5,798.

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(1) Preliminary Report on Water System Extension for South Anderson Water District, Section II, p. 11-1 and p. IV-2.

(2) Testimony of Mr. Clifford and Mr. Smith at the July 8, 1981, hearing.

Therefore, the Commission finds that the Applicant's adjusted operating revenues and expenses are summarized as follows:

|                            | <u>Actual</u> | <u>Adjustments</u> | <u>Adjusted</u> |
|----------------------------|---------------|--------------------|-----------------|
| Operating Revenues         | \$49,136      | \$ 7,126           | \$56,262        |
| Operating Expenses         | 39,706        | ( 2,980)           | 36,726          |
| Operating Income/(Loss)    | \$ 9,430      | \$10,106           | \$19,536        |
| Interest on Long-Term Debt | 10,100        | 1,814              | 11,914          |
| Net Income/(Loss)          | (\$ 670)      | \$ 8,292           | \$ 7,622        |

#### FINDINGS IN THIS MATTER

The Commission, after review of the record and being advised, is of the opinion and finds that:

1. Public convenience and necessity require construction of the Applicant's proposed waterworks project in Anderson County, Kentucky, as set forth in the application.

2. The construction project proposed by the Applicant includes 12,200 linear feet of 6" P.U.C. Pipe, 10,000 linear feet of 4" P.V.C. Pipe and related appurtenances at a total project cost of approximately \$126,000.

3. The financing of this project in the amount of \$126,000 is composed of \$16,400 in contributions from Applicant, a \$59,600 FmHA grant and a \$50,000 FmHA loan to be secured by the issuance of waterworks revenue bonds.

4. The financing of this project, as delineated in finding number three herein, is for lawful objects within the corporate purposes of the Applicant, is necessary and appropriate for and consistent with the proper performance of the Applicant of its service to the public, and will not impair its ability to perform that service.

5. Any construction deviations from the contract plans and specifications herein approved, which could adversely affect service to any customer, should be subject to the prior approval of this Commission.

6. The Applicant should furnish the Commission with duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed.

7. The contract between the Applicant and the engineer should require the engineer to provide general engineering supervision and full-time resident inspection under his supervision to insure that the construction work conforms to the best construction practices and is done in accordance with the contract plans and specifications.

8. Within 60 days of the date of substantial completion of this construction, the Applicant should require the engineer to furnish this Commission with a copy of the as-built plans and a certification that the construction has been satisfactorily completed in accordance with the contract plans and specifications.

9. The rates currently being charged by the Applicant, as set out in Appendix A, provide operating revenues sufficient to cover its projected operating expenses and will provide operating income which is more than adequate to meet the debt service coverage required by Applicant's lenders. However, the Commission, from past experience, is of the opinion that the present inflation

rate will cause this coverage to erode more nearly to that required by the Applicant's lenders and that the rates authorized herein will not produce excessive earnings over any substantial period of time and are the fair, just and reasonable rates to be charged by the Applicant for water service rendered to its customers.

10. The rates proposed by the Applicant would produce revenues in excess of those found to be reasonable herein and therefore must be denied upon application of KRS 278.030.

11. A Purchased Water Adjustment Clause is the fair, just and reasonable method to be used to provide for the adjustment of Applicant's rates when the wholesale cost of water is increased or decreased as it will allow the Applicant to reflect on a timely basis its increased or decreased costs. Further, it is in the best interest of the public as it will help to ensure the financial stability of the Applicant and therefore its ability to provide safe, reliable water service to the public.

12. The Applicant does not have on file with the Commission in its tariff a Purchased Water Adjustment Clause.

13. For the purpose of the future application of the Purchased Water Adjustment Clause of the Applicant, the base rate for purchased water should be:

| <u>Supplier</u>              | <u>Rate</u>              |
|------------------------------|--------------------------|
| Lawrenceburg Municipal Water | \$ .66 per 1,000 gallons |
| Stringtown Water District    | \$ .72 per 1,000 gallons |
|                              | \$130.00 Minimum         |

ORDERS IN THIS MATTER

The Commission, on the basis of the matters hereinbefore set forth and the evidentiary record in this case,

HEREBY ORDERS that the Applicant be and it is hereby granted a certificate of public convenience and necessity for the construction of the waterworks improvements delineated by its contract plans and specifications thereto, as filed in the record in this matter.

IT IS FURTHER ORDERED that the Applicant be and it is hereby authorized to finance its proposed construction by means of the \$126,000 financing that has been secured as follows: \$59,000 FmHA grant, 40-year FmHA bonds in the amount of \$50,000 at FmHA's current rate of interest and \$16,400 in contributions by South Anderson Water District. Further, that this \$126,000 in project funds shall be used only for the lawful objects as set forth in the application.

IT IS FURTHER ORDERED that any construction deviations from the said contract plans and specifications which could adversely affect service to any customer shall be subject to the prior approval of this Commission.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission a duly verified document or documents which show the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed.

IT IS FURTHER ORDERED that the contract between the Applicant and the engineer shall require the engineer to provide general engineering supervision and full-time resident inspection under his supervision to insure that the contractor's construction work conforms to the best construction practices and is done in accordance with the contract plans and specifications.

IT IS FURTHER ORDERED that the Applicant shall require the engineer, within 60 days of the date of substantial completion of the proposed construction, to furnish this Commission with a copy of the as-built plans and a certification that the construction has been satisfactorily completed and has been done in accordance with the contract plans and specifications.

IT IS FURTHER ORDERED that the rates proposed by South Anderson Water District are hereby denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates currently being charged and as set out in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates to be charged for water service rendered to its customers.

IT IS FURTHER ORDERED that the Purchased Water Adjustment Clause, as set out in Commission regulation 807 KAR 5:067 and Appendix A, is hereby approved for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that for the future application of the Purchased Water Adjustment Clause approved herein, the base rate for purchased water shall be:



| <u>Supplier</u>              | <u>Rate</u>              |
|------------------------------|--------------------------|
| Lawrenceburg Municipal Water | \$ .66 per 1,000 gallons |
| Stringtown Water District    | \$ .72 per 1,000 gallons |
|                              | \$130.00 Minimum         |

IT IS FURTHER ORDERED that the Applicant shall file with this Commission within 30 days from the date of this Order its revised tariff sheets setting out the Purchased Water Adjustment Clause approved herein.

Nothing contained herein shall be deemed a warranty by the Commonwealth of Kentucky, or agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 2nd day of October, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs  
Chairman

Katherine Randall  
Vice Chairman

Don Karuga  
Commissioner

ATTEST:

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Secretary